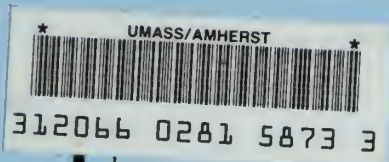


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**THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF THE INSPECTOR GENERAL**

**Proposed Disposition of the
Massachusetts Highway Department's
Wellesley Central Maintenance Facility:**

A Review Pursuant to Chapter 273 of the Acts of 1994

**Robert A. Cerasoli
Inspector General
July 1996**



ROBERT A. CERASOLI
INSPECTOR GENERAL

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July 1996

His Excellency the Governor

The Honorable President of the Senate

The Honorable Speaker of the House

The Honorable Chairman of the Senate Ways and Means Committee

The Honorable Chairman of the House Ways and Means Committee

The Executive Directors of the Legislative Post Audit Committees

The Secretary for Administration and Finance

Members of the General Court

Omnibus ad quos praesentes literae pervenerint, salutem.

I am transmitting my Office's report on the proposed disposition of the Wellesley Central Maintenance Facility by the Massachusetts Highway Department (MHD). Chapter 273 of the Acts of 1994, section 72, directed my Office to perform this review. The report concludes that the Commonwealth will realize a substantial net financial benefit from the transfer of state functions from the site and disposition of the property for private development. The report also recommends that the MHD undertake a study prior to siting a permanent research and materials facility, and that the Division of Capital Planning and Operations prepare and periodically update a statewide master facility plan.

Sincerely,

A handwritten signature in black ink that reads "Robert A. Cerasoli". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Robert A. Cerasoli
Inspector General

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I. Introduction

Chapter 273 of the Acts of 1994, the 1994 Transportation Bond Bill, directed the Inspector General to review the Massachusetts Highway Department's (MHD) transfer of functions from the Wellesley Central Maintenance Facility to other locations and to dispose of the property.¹ Specifically, the Inspector General was directed to investigate the:

- costs and benefits of transferring highway functions performed at Wellesley to other MHD locations and to private contractors;
- possible future uses of the facility by the MHD or other state agencies; and
- likely income to be realized by possible sale or other disposition of the site.

The statute, signed by the Governor on December 30, 1994, prohibited the sale or other disposition of the facility until the Inspector General completed and filed his report with the House and Senate Committee on Ways and Means. By the time the law was enacted, the MHD had already relocated some functions from Wellesley and had begun improvements at other sites to accommodate additional transfers. During the course of this review, the MHD continued its relocation work and vacated the Wellesley site. On February 29, 1996, the Division of Capital Planning and Operations (DCPO) and the MHD

¹SECTION 72. The inspector general shall review the transfer of highway functions by the department of highways from its Wellesley central maintenance facility to other locations and to private contractors. The inspector general shall investigate the costs and benefits of performing these functions at such other locations or through such contractors rather than at the Wellesley facility, the possible future uses of the Wellesley facility site by the department or other state agencies, and the likely income to be realized by possible sale or other disposition of the site. The inspector general shall report in writing his findings and recommendations following said review to the house and senate committees on ways and means as soon as possible but not later than June thirtieth, nineteen hundred and ninety-five. No sale or other disposition of all or any portion of the Wellesley facility site shall occur until the inspector general has filed his report.

issued a request for proposals for redevelopment of the property under a ground lease for a term not to exceed 99 years.

In performing this review, this Office conducted interviews with MHD staff; visited the Wellesley facility and the sites² slated to receive major functions transferred from Wellesley; obtained and reviewed documents from the MHD, the DCPO, and the Massachusetts Water Resources Authority (MWRA);³ and performed independent analyses of data obtained from the MHD.

The remainder of this report presents the result of this Office's review. Part II describes the Wellesley Central Maintenance Facility and provides information on space utilization, physical condition, and hazardous and toxic waste issues. Part III examines the potential income from the disposition using appraisals obtained by the MHD and additional considerations identified by this Office's analysis. Part IV identifies the transferred functions and the costs associated with the transfers. Part V reviews the state's assessment of potential state uses of the site. Part VI contains this Office's conclusions.

²Staff from this Office visited the Bridgewater, Concord, South Boston, Franklin, and Medford sites.

³The material from MWRA related to its consideration of the Wellesley site as a possible location for a waterworks distribution maintenance facility.

II. The Wellesley Central Maintenance Facility

The Wellesley Central Maintenance Facility (Wellesley Depot) is located on a parcel of approximately 15.6 acres⁴ at the intersection of Route I-95 (Route 128) and Route 9 in Wellesley. The westerly property line abuts a residential area. The site contains three principal buildings constructed in the early 1950s with a total of over 186,000 square feet. The main building, with 155,512 square feet of space, is at the front of the site along Route 9. Until last year, it housed the MHD's heavy equipment maintenance, sign shop, and central storeroom functions. A second building is a storage garage and contains 19,536 square feet. The third building is a vacant laboratory building with 12,936 square feet. The site also contains a storage shed for sand and salt, a hazardous waste storage shed, a fuel pump facility, and a communications tower. According to the redevelopment request for proposals (RFP) issued on February 26, 1996, the MHD will retain the communications tower on the northwest corner of the site.⁵

Staff from this Office toured the Wellesley Depot on April 6, 1995. At that time, the laboratory building was vacant: the MHD had moved the research and materials function to South Boston in November 1993. The storage garage was also vacant except for a few bays used to store equipment for a bridge inspection team. The main building, which was still in use, is the subject of the following discussion.

✦ ⁴The February 29, 1996 RFP indicates that the site includes approximately 15.6 acres, and contains a site plan dated February 23, 1996. Prior to this date, the exact site dimensions had not been determined and documents examined by this Office generally referred to 15± acres.

⁵The redevelopment RFP states: "MHD, in conjunction with NYNEX, maintains a radio/cellular communications tower which is located in the northwest corner of the Site. The MHD will retain the right to access the tower upon reasonable notice to the developer"

Space utilization

The main building is very large with over 155,000 square feet of space. Staff from this Office observed that it was underutilized and, in many respects, functionally obsolete for the purposes it served. The excessive amount of space available apparently fostered inefficient practices. For example, the stockroom covered a large floor area and contained many items that were no longer used by the MHD. (According to the MHD staff, the MHD was in the process of identifying and disposing of obsolete inventory.) The ceiling was several times again higher than the top shelf of storage racks. Inventory management was archaic: an index card system was used to keep track of inventory. A modern inventory management system would be likely to substantially reduce inventory and, therefore, required stockroom space.

Similarly, vast space was devoted to storing old furniture, equipment, and supplies. Old desks were piled five high, and old metal lockers were packed tightly together in a very large area. Staff interviewed by this Office were unsure whether the MHD had any use for the stored material, and did not know whether the lockers surrounded more lockers or other materials.

Physical condition

The physical condition of the building was generally fair to good, with the notable exception of the heating system. Neither of the two boilers was operable on the day of our tour. MHD staff reported that one boiler had been inoperable for several years, and

the other periodically breaks down.⁶ Several staff reported that the heating in the building was inadequate in the winter.

The MHD has not detailed and estimated the cost of improvements the building would require if it continued operations in Wellesley. However, the MHD has reported to this Office that the MHD engineers have estimated the cost of improvements necessary for long-term operation of the building to be in excess of \$4 million.⁷

In a February 1995 interview, MHD officials identified various repairs that would likely be necessary if the MHD continued to occupy the building. Of the repairs identified, one significant item appears in doubt: a new roof with an estimated cost of \$1.5 million. During our tour of the building, we went out on the roof and observed it to be in good condition. MHD staff working at the facility estimated that the roof had been completely rebuilt in about 1986. Also, a December 1991 cost estimate of proposed repairs and improvements to the Wellesley facility noted the following about the main building:

The present roof . . . appears to be in good shape. According to the DPW staff, this roof was replaced in 1988. Any present leaks are occurring at the expansion joints and penetrations, and could be individually identified and sealed.⁸

⁶The same condition apparently existed four years earlier. In a report on a site visit on September 3, 1991, Milne Associates, Inc., noted:

The existing boilers are inoperable. There are two boilers fed by No. 6 oil which are rated at 60 lbs. Both boilers had been running at 40 lbs. when they were operating last year. It was reported that the tubes leak profusely. The burners have been replaced, the boilers were installed when the building was built in 1952.

⁷Letter from Edward J. Corcoran II, MHD Chief Counsel, June 8, 1995.

⁸"Department of Public Works/The Lottery, Cost Estimate." Milne Associates, Inc., December 1991, p.3.

A review of documents the Office obtained from DCPO provides a more detailed list of possible improvements. In 1991, the DCPO, MHD, and State Lottery Commission (Lottery) explored the possibility of the Lottery constructing a central office building at the Wellesley site. As consideration for releasing part of the site to the Lottery, the MHD identified a list of facility improvements and repairs it would like the Lottery to fund. A December 1991 cost estimate prepared by Milne Associates, Inc., in consultation with the DCPO and the MHD priced the total cost of the 12 projects at \$3.2 million.

This Office reviewed the cost estimate, made adjustments as necessary, and identified approximately \$3 million in repairs and improvements that the MHD would likely make if it continued to operate the building. (See Table I.) For the purposes of this analysis, the estimate prepared by this Office is referred to as "avoided cost": in relocating functions from the Wellesley Depot, the MHD effectively avoids having to expend this amount for improvements to the facility.

Hazardous and toxic waste issues

In May 1993, ABB Environmental Services, Inc., (ABB-ES) submitted to the MHD a limited site evaluation report on the Wellesley Depot.⁹ The MHD had contracted for the report in preparation for the depot's disposition. As part of its evaluation, ABB-ES:

- performed 11 soil borings and collected and analyzed subsurface soil samples,
- installed three groundwater monitoring wells,
- evaluated the extent of soil contamination associated with current and former underground storage tanks at the site,
- evaluated catch basin sediment and groundwater, and

⁹"Limited Site Evaluation Report, Massachusetts Highway Department, Wellesley Maintenance Depot," ABB Environmental Services, Inc., May 1993.

**Table I: Estimated Cost of Necessary Improvements
"Avoided Cost"**

• HVAC and steam heat	\$582,500
Exhaust systems	474,878
Energy conservation	230,415
Fire alarm & security	191,870
Electrical systems	174,005
Silk screen room & ventilation	172,945
Truck paint spray booth	119,008
Garage area	97,091
Roof repair	58,950
Communications	2,625
Renovation & painting	12,000
	<hr/>
<i>Subtotal</i>	<i>\$2,116,287</i>
Overhead & profit (21%)	444,420
Design fee (10%)*	188,265
	<hr/>
<i>Subtotal design & construction</i>	<i>\$2,748,972</i>
Contingency (10%)	274,897
	<hr/>
<i>Total</i>	<i>\$3,023,869</i>

*Design fee percentage applied only to items requiring design.

-
- prepared an order-of-magnitude cost estimate for remediating site contamination.

ABB-ES applied the standards in the then-draft Massachusetts Contingency Plan (MCP)¹⁰ to the data it had collected. ABB-ES found soil contamination and limited groundwater

¹⁰The final MCP is contained in 310 CMR 40.0000. The Office reviewed the final MCP in force as of August 25, 1995, and determined that the final standards appear consistent with the draft standards applied by ABB-ES in its limited site evaluation report.

contamination. The groundwater contamination was minimal and, in ABB-ES' opinion, would not require remediation. However, ABB-ES concluded that the soils contaminated by petroleum products would have to be remediated.

ABB-ES developed alternative remediation strategies and cost estimates, again relying on the draft MCP standards. The report identified three of the alternatives as possible approaches to remediation assuming that the property would be redeveloped. The costs of the three alternatives ranged from \$230,000 to \$690,000.

It appears likely that the MHD would have to take action to address these conditions whether or not it disposed of the property.¹¹ ABB-ES identified one alternative that would be available in the event that the MHD were to continue to occupy the site: to maintain the pavement, monitor the groundwater, and place deed restrictions on the property to prohibit soil excavation and limit site development. ABB-ES estimated that a groundwater monitoring program would initially cost \$10,000 per year. Although ABB-ES did not provide a long-term cost estimate for this alternative, the costs for groundwater monitoring would likely decrease over time if the results continued to be acceptable to regulators. However, if the monitoring program showed unacceptable increases in contaminants, MHD would be required to undertake more extensive (and more costly) remediation. For the purposes of this analysis, this Office has assumed that the groundwater monitoring alternative would be successful and estimated its long-term cost at \$100,000.

¹¹The MHD entered into consent agreements and orders with the U.S. Environmental Protection Agency (EPA) and the Massachusetts Department of Environmental Protection on September 30, 1994. The agreements impose a number of requirements on the MHD, including in the agreement with the EPA that the MHD expend \$20 million by December 31, 2000, to perform site investigations and remediation at its facilities statewide.

III. Potential Income from Disposition

The MHD contracted with Leggat McCall & Werner Appraisal and Consulting Co., Inc., (Leggat McCall) for two appraisals of the fair market value of the Wellesley Depot. One appraisal was dated April 1993¹² and the second was dated May 1995.¹³ The Office of the Inspector General has reviewed the appraisals in detail, and has used the 1995 appraisal as a basis for estimating potential income from the disposition. Of course, the actual market value of the property would be established through open, fair, and rigorous competition among developers.¹⁴

Sale value

The April 1993 appraisal report included values for a variety of uses that ranged from \$850,000 for use as currently zoned for a single-family subdivision of 10,000 square-foot lots to \$16.4 million for retail use. (See Table II.) Of the various possible alternate uses, the appraisal concluded that the highest and best use that would likely be approved by the Town of Wellesley was a "signature office building" with approximately 196,000 square feet of space. The report appraised the fair market value of the property for this use at \$7.2 million; the fair market rental for an unsubordinated 30-year ground lease with renewal options was estimated to be \$504,000 per year.

¹²"Appraisal Report, Wellesley Maintenance Depot, Route 9, Wellesley, Massachusetts," as of April 15, 1993, by David L. Cary, MAI, and John M. Francis, MAI, Leggat McCall & Werner Appraisal and Consulting Co., Inc.

¹³"Appraisal Report, Wellesley Maintenance Depot, Route 9, Wellesley, Massachusetts," as of May 8, 1995, by David L. Cary, MAI, and John M. Francis, MAI, Leggat McCall & Werner Appraisal and Consulting Co., Inc.

¹⁴On May 15, 1996, the DCPO received 17 proposals for development of the Wellesley Depot.

Table II: Leggat McCall Appraised Values (April 15, 1993)

Value	Use
\$850,000	Single family home subdivision (as currently zoned)
\$5 million	Special permit for educational use
\$7.2 million	Rezoned for use as a "signature office building"
\$16.4 million	Unrestricted by zoning

This conclusion was based on the recommendations of a "design charrette" convened in Wellesley by the Metropolitan Area Planning Council and the Wellesley Planning Board in April 1993. The charrette's report on its findings stated:

The charrette team did not recommend one specific reuse of the site[:] instead the team opted to establish performance criteria to guide potential bidders to a satisfactory plan that would gain approval at Town Meeting.

Single family residential and the other uses which are allowed as permitted uses in a residential zone should be allowed as permitted uses in the MHD district.

Other uses such as office, mixed use (including residential, office and/or retail), restaurants, health clubs and education R&D uses and office R&D would be allowed only upon obtaining a special permit. The team felt that certain businesses that probably are interested in the site should absolutely not be allowed. . . . Such negative uses include: warehouse storage, regional retailer, and entertainment use.¹⁵

In developing the 1993 appraised value of the site as a signature office building, the appraisers were unable to identify recent comparable land sales due to the downturn in

¹⁵Wellesley Design Charrette, *Charrette Team Findings*, April 7, 1993, pp. 12, 13.

the market.¹⁶ Nonetheless, the appraisers concluded that their analysis yielded meaningful results:

In the subject case, both approaches available to us are somewhat troublesome. The comparable sales approach is forced to use sales from a different economic period. The land residual approach . . . is not as definitive as we would like. Nevertheless, we are satisfied that the indicated values collectively represent a meaningful indication of value.¹⁷

The May 1995 report appraised the site only for development of a 196,000 square-foot signature office building. (See Table III.) The appraisal reflected considerable improvement in the office building real estate market in the two years since the prior report: the reported sale value had increased over \$3 million and the annual rental value had increased by more than \$300,000.

Table III: Leggat McCall Appraised Values (May 8, 1995)

Signature Office Building Use

Fair Market Value: \$10,250,000

Fair Market Rental: \$820,000 per year

¹⁶"[The sales comparison] approach is most accurate when data on comparable sales is available, which is the case with the subject property in respect to its market value without regard to zoning. *It is less meaningful in respect to first class office building sites because there has been no new office building activity in recent years.* Nevertheless, it is used for valuation of the subject as a site for a signature office building in spite of the lack of recent sales." (Emphasis added.) 1993 Leggat McCall appraisal report, p. 17.

¹⁷1993 Leggat McCall appraisal report, p.70.

In preparing this appraisal, the appraisers found only one recent land sale that they considered comparable.¹⁸ As a result, the 1995 appraisal contains essentially the same caveat and conclusion as that quoted above from the 1993 report.¹⁹

The 1993 and 1995 appraisal figures are not directly comparable. In applying the land residual approach to value, the 1993 report deducted \$650,000 in demolition costs from the value of a signature office building. The 1995 report did not account for demolition costs. This Office estimates the cost of demolition at \$892,000. This figure, which is higher than the \$600,000 estimate used in the 1993 Leggat McCall report, reflects the size and difficulty of the task and includes the removal of asbestos, which is likely to be present. The actual demolition cost also will be influenced by the time allowed for demolition: the more time allowed, the more income demolition contractors could expect to generate from marketable scrap, which would lower demolition contractors' bid prices.

This Office employed the same approach used by Leggat McCall in the 1993 appraisal report to account for estimated demolition costs; that is, we deducted the \$892,000 demolition cost from the \$10,250,000 market value obtained by Leggat McCall in its 1995 report. The resulting estimate of fair market value used by this Office is \$9,358,000.

Rental value

The MHD intends to lease the property to a developer, most likely for development of a signature office building, rather than sell it. Leggat McCall estimated the fair market rent

¹⁸"Unfortunately, in the last few years there has only been one sale of an office building site that can reasonably be compared to the subject. . . ." 1995 Leggat McCall appraisal report, p.17.

¹⁹The 1995 report contains a statement identical to the passage quoted above from the 1993 report except that it stated: "The comparable sales approach is forced to use *some* sales from a different economic period. . . ." (Emphasis added.) 1995 Leggat McCall appraisal report, p.39.

for the property for development of a signature office building at \$820,000 per year, assuming that the lease would be for an initial term of 30 years with renewal options and that the Commonwealth would not subordinate its interest in the lease to any mortgagees.

This Office employed the same methodology used by Leggat McCall in its 1995 report to estimate the potential income the Commonwealth would receive from a 30-year ground lease:²⁰ we multiplied the fair market value estimate of \$9,358,000 by eight percent.²¹ The result is an annual rent payment of approximately \$750,000. Over the 30 years, the rent payments would equal \$22,500,000; the present value of the payments would equal \$8,517,718.²²

Limitations and adjustments

The two appraisal reports contain customary qualifications, identify assumptions made for purposes of the analysis, and present supporting data. In this Office's view, four factors could substantially affect the potential income the Commonwealth would realize from disposition of the property: actual development use and density, hazardous waste remediation costs, underground storage tank removal and disposition costs, and demolition costs. In addition, the Commonwealth would incur costs for marketing the site, evaluating proposals, preparing and negotiating a lease, and possibly assisting a developer in obtaining from the Town of Wellesley zoning approval for a change in use.

²⁰The February 29, 1996 RFP for redevelopment of the property offers a ground lease not to exceed 99 years. For the purpose of this analysis, this Office has assumed a 30-year initial lease period consistent with the assumptions made in the property appraisals.

²¹1995 Leggat McCall appraisal report, p. 40.

²²The present value was calculated assuming monthly rent payments for a period of 30 years, discounted at eight percent, the interest rate applied in the Leggat McCall appraisal to establish the fair market rent.

Development use and density. Any developer of the site would have to obtain the approval of the Wellesley Town Meeting to develop the site for any purpose other than as currently zoned. As a result, the value of the site is largely determined by the use the Town will allow. Based on the results of the Wellesley design charrette, the working assumption of the MHD and DCPO is that the site will likely be developed as a signature office building or some similar use. The charrette determined that retail use, which would assign the greatest value to the site, would not likely be approved by the Town. Should the Town insist on retaining the current zoning designation, the value of the site would be significantly depressed.

Another significant factor is the development density. The appraiser has assumed that use as a signature office building with a floor area ratio (FAR) of .3 would be approved by the Town.²³ (This means that the building floor area would equal 30 percent of the land area.) The value of the site can be significantly affected by the allowable FAR. A lower FAR would mean less development, and lower value. A higher FAR would allow more development and result in a higher value.²⁴

This Office has no information contradicting the appraisal's assumption that the Town would approve a signature office building with .3 FAR. Consequently, we have not adjusted the expected potential income to reflect any other use and FAR.

²³1995 Leggat McCall appraisal report, page 11.

²⁴In an August 30, 1993 review appraisal, MHD's Cornellius T. Maher noted:

Nearby sites appear to be developed well above a 30% ratio. Mr. Francis [one of the Leggat McCall appraisers] indicated that the building to be constructed on this site would most likely be developed in negotiations with the town. Concessions made by a developer could increase the area. The actual building developed most likely will vary from the area estimated by the appraiser. . . .

Hazardous waste remediation. In appraising the property, Leggat McCall assumed that the Wellesley site is not contaminated with hazardous waste.²⁵ As discussed earlier, however, an April 1993 limited site investigation by ABB-ES determined that the soil at the site contains petroleum products. The potential income the Commonwealth may realize through disposition of the property will be reduced by the cleanup costs. It is likely that the MHD would incur some costs for remediating contamination whether or not it continues to occupy the property. However, a disposition of the property would result in a requirement that the remediation be performed sooner, and that the remediation be more extensive than if the MHD retained the property for use as a maintenance facility. Until a more extensive assessment is performed, there can be no assurance that site contamination is not greater than that revealed by the ABB-ES study. The true extent and nature of the contamination will not be known until remediation is undertaken. However, for the purposes of this analysis, we have incorporated the midpoint of the ABB-ES range of cleanup cost estimates: \$460,000.²⁶

No survey has been performed to estimate the extent to which asbestos may be present in the buildings to be demolished. Given the age of the buildings, it appears likely that asbestos will be found in elements of the heating system and old construction materials. Until a survey is performed, it is not possible to accurately estimate the cost of the

²⁵The 1995 Leggat McCall appraisal report states under "contingent and limiting conditions":

We have been informed by representatives of our client . . . that the subject is not free of toxic or hazardous waste or other factors. . . . For the purposes of this appraisal, in accordance with our engagement, we have assumed that the subject property is clear of all hazardous and toxic substances.

²⁶On May 6, 1966, ABB-ES submitted to the MHD a work and cost plan for a release abatement measure at the Wellesley facility with a recommended budget of \$173,000. This plan only addresses a portion of work to be performed at the site; ABB-ES plans to prepare a separate work and cost plan for a site investigation pursuant to M.G.L. c.21E.

removal. This Office has considered this factor in estimating demolition costs for the Wellesley depot.

Underground storage tank removal. The ABB-ES study documented the existence of five 10,000-gallon underground storage tanks: three gasoline and diesel tanks associated with the fuel pump island and two fuel oil tanks. That study did not include an estimate for removal of the tanks. We have included an estimate of \$100,000 for storage tank removal and disposition. The 1993 Leggat McCall report estimated the cost of removing the fuel station and gasoline tanks at \$50,000. It is unclear from the report whether this amount included the two fuel oil tanks.

Transaction costs. The state has incurred consultant costs for environmental work, and for appraising and marketing the Wellesley site, and may incur additional costs for assistance in evaluating and negotiating development proposals. For the purposes of this analysis, this Office has included an estimate of \$75,000 for all consultant services in support of the planned disposition.

Net potential income

Based on the assumptions and estimates described above, this Office has estimated the net potential income from a 30-year lease of the Wellesley depot at \$7,882,718. (See Table IV.)

Table IV: Net Potential Income From 30-Year Lease

Present value of 30-year lease payments		\$8,517,718
Adjustments		
Underground tank removal	(460,000)	
Hazardous waste cleanup	(100,000)	
Transaction costs	(75,000)	
Subtotal		(635,000)
Net potential income		<u>\$7,882,718</u>

IV. Transferred Functions

In an April 29, 1993 report,²⁷ the MHD documented the functions performed at the Wellesley Depot and recommended reassignment of the functions.²⁸ In response to a request from this Office, the MHD provided updates on the status of the recommendations contained in the 1993 report on June 8, 1995 and again on March 8, 1996. This Office used the MHD report and updates and interviews with MHD staff to identify functions performed at the Wellesley Depot and the MHD's transfers of the functions to other sites. According to MHD officials, the MHD has not privatized any of these functions nor laid off any of the employees as a result of closing the facility.

The MHD's relocation from the Wellesley depot involved moving four major functions -- research and materials testing, sign shop, central stockroom, and heavy equipment maintenance and repair -- and numerous less extensive functions that were decentralized or otherwise relocated without requiring significant capital investment by the MHD.

Research and materials testing. The Wellesley Depot contains a separate research and materials testing laboratory building. MHD officials informed staff of this Office that modular buildings also had been used at the site to supplement the laboratory space. In November 1993, the MHD relocated the research and materials function from Wellesley to a portion of the former MHD District 8 headquarters on D Street in South Boston. The facility is considered temporary and the MHD has authorizations totaling \$12 million to

²⁷Wellesley Facility Task Force, *Wellesley Central Repair Facility Recommendation Report*, April 29, 1993.

²⁸The MHD report included all the functions contained in a February 1, 1993 report by AFSCME/SIEU/NAGE entitled "Wellesley Central Repair Facility, State Highway Department: An overview by the workers and their unions."

construct a permanent facility at D Street.²⁹ In its new location, the research and materials function is adjacent to the Central Artery/Third Harbor Tunnel (CA/THT) project's Technical Services and Environmental Operations (TS&EO) group which was relocated from another site in Boston. According to CA/THT records, the total cost of the temporary relocation of the Wellesley research and materials function to the D Street site was \$1,852,755, including building improvements, moving, and furniture costs. The MHD's CA/THT project bore this cost as part of an agreement to allow the relocation of the TS&EO function and the construction of a central maintenance facility for the CA/THT at the D Street location.

In addition, the MHD plans to relocate historical laboratory records and sample borings to an MHD site in Lawrence. The MHD estimates that its costs for improvements to existing facilities at the Lawrence site will total \$157,000. Combined with the cost for the temporary relocation to the D Street facility, the total cost for the relocation is estimated at \$2,009,755.

Sign shop. In September 1995, the MHD moved the sign shop from Wellesley to an existing building on Mystic Avenue in Medford, adjacent to Interstate 93. The sign shop occupies the rear of the building, approximately 70 percent of the floor space. The MHD plans to use the front part of the building for District 4, principally to store equipment. Interior improvements to the building for use by the sign shop cost the MHD a total of \$772,784. The MHD also made exterior improvements (door and window replacement, roof replacement, and structural repairs) to the entire building, at a total cost of \$473,208. This Office counted 70 percent of that cost, or \$331,246, toward the cost of relocating the

²⁹Chapter 33 of the Acts of 1991, §3(l), authorized \$7 million for design and construction of an addition to the Wellesley research and materials building. Chapter 273 of the Acts of 1994, §38, amended the 1991 authorization to specify that the facility was to be located at D Street. In addition, Chapter 273, §2, line item 6033-9540 authorized an additional \$5 million for "a combined maintenance and materials testing facility to be located at D Street, South Boston"

sign shop. Thus, the total cost of building improvements to accommodate the relocated sign shop is \$1,104,030.

Central stockroom. The MHD relocated its central stockroom from Wellesley to a new building in Franklin at the intersection of Route 140 and Interstate 495. The building recently had been constructed to serve as a District 3 stockroom and was modified and equipped to accommodate the central stockroom.³⁰ The building and equipment cost a total of \$312,818. In addition, the MHD recently awarded an \$87,000 contract for construction of a hazardous material storage facility and estimates that site work will cost an additional \$75,000. In total, then, the current estimated cost for relocating the central stockroom totals \$478,818.

Heavy equipment maintenance and repair. The 1993 MHD report recommended combining several functions performed at Wellesley into a consolidated heavy equipment division. The functions recommended for consolidation included the heavy equipment operation and maintenance division, the paint shop, the machine shop, the 4x4 section, and the loader repair section. The report also recommended that the consolidated division be relocated to a central location.

The MHD had developed plans to locate a centralized heavy equipment division at a recently constructed District 5 facility in Bridgewater at the intersection of routes 24 and 104, near Interstate 495. The MHD expended \$193,175 on improvements to the existing buildings and has contracted for construction of a hazardous material storage building at a cost of \$49,100. In addition, the MHD has estimated that an additional \$435,000 would be necessary for additions to the facility, a separate cold storage building, and site work. The MHD would, in addition, spend an estimated \$450,000 to replace the structures taken

³⁰The fuel administration headquarters and most administrative staff were also relocated from Wellesley to the Franklin site.

from District 5. The total estimated cost for the centralized division in Bridgewater is \$1,127,275.

In September 1995 the MHD moved the heavy equipment functions out of Wellesley, assigned the heavy equipment mechanics to work in districts 4 and 5, and moved the shop equipment to Bridgewater. The MHD assigned the painter from the heavy equipment paint shop to the sign shop in Medford. The MHD's Director of Operations recently told this Office that the MHD is reassessing its plans. Specifically, the MHD is considering whether to proceed with a centralized facility, to keep a decentralized district-based maintenance and repair system, or to combine both of these options. In addition, the MHD is evaluating whether to build a paint shop even if it does create the centralized facility. Although plans are unsettled at this time, this Office has assumed for the purposes of this analysis that the MHD will proceed with the centralized heavy equipment facility.

Other MHD functions. A variety of other functions and support staff previously located at Wellesley have been transferred to other MHD locations. (See Table V.) Of these, according to the MHD, only one required capital investment: the pavement management function, which was transferred to a depot on Route 2 in Concord.³¹ The MHD reported to this Office that it has expended \$90,030 on facility renovations and plans to expend an additional \$15,000 on additional renovations. The total estimated cost for the relocation to Concord is \$105,030.

³¹The MHD's Director of Operations told this Office that incidental material from district stores may have been used for minor improvements at some locations.

Table V: Other Functions Transferred

Function	New Location
Pavement Management	Concord
Radio Shop	Decentralized to districts
Traffic Maintenance	Wrentham
Underwater bridge inspection	Westwood
Light vehicle maintenance	Decentralized to districts
Fuel system headquarters	Franklin
Administration	Franklin
Facilities Management	Boston
Motor Pool	Decentralized to districts
Traffic Counting	Decentralized to districts

Emergency reception area. The 1993 the MHD report identified one non-state function at the Wellesley site: In 1989, Boston Edison Company entered into a 25-year "lease"³² with the MHD and the DCPO for use of the Wellesley site as an emergency reception area in the event that a nuclear power plant accident necessitated evacuation of people from the Plymouth or Seabrook areas. The MHD terminated the lease as of December 31, 1993.

Summary of costs

This Office's current estimate of the total direct costs for relocating the MHD functions from Wellesley to other sites is approximately \$4.9 million. (See Table VI.)

³²The report refers to a "lease" with Boston Edison, but in his April 27, 1993 letter notifying Boston Edison that the MHD was exercising its termination right, MHD's Chief Counsel referred to the agreement as a "license."

Table VI: Summary of Costs of Transfers

Research & materials testing		
Laboratory facility	\$1,852,755	
Records & sample storage	<u>157,000</u>	
		\$2,009,755
Heavy equipment maintenance & repair		1,127,275
Stockroom		474,818
Sign shop		1,104,030
Pavement management		105,030
General		
Design	\$65,000	
Moving	<u>45,000</u>	
		110,000
		<hr/>
	Total	\$4,930,908

As previously discussed, not all work has been completed, and the MHD has not finalized its plans for heavy equipment maintenance and repair. In addition, this figure includes two general categories not mentioned above: the cost of designing improvements to facilities and the cost of moving equipment and supplies. As of April 1996, the MHD estimated that it had spent approximately \$52,300 on in-house design costs. Because additional design work must be completed, this Office included an estimate of \$65,000 in this analysis. As of March 1996, the MHD reported moving costs that totalled \$36,960. Because additional moving costs will be incurred, this Office has included an estimate of \$45,000 in this analysis.

V. Potential Future State Uses of the Wellesley Site

In 1993 the MHD concluded a review of its potential uses of the site, and DCPO queried state agencies, public authorities, Norfolk County, the Town of Wellesley and others regarding potential uses of the site in 1994. This Office has undertaken a review of additional information sources to identify potential state uses.

MHD's internal review

In a December 22, 1992 interoffice memorandum, the Assistant Director of the MHD's Right of Way Bureau solicited "comments, opinions, and/or recommendations" on the proposed disposition of the Wellesley Depot. Four MHD departments responded with comments in January, and two others responded in February. None of the respondents objected to a disposition. Only one respondent, the Director of the Bureau of Transportation Planning and Development, identified a state need. That need could be met on the site even if it were leased:

As part of the Central Artery/Tunnel (CA/T) project, the MHD has committed to construct 20,000 commuter parking spaces as satellite "Park-and-Ride" lots throughout the metropolitan area of Boston. In the short-term, the MHD should consider the immediate use of this site for such a facility. In the longer term, the MHD should work creatively with prospective lessees or owners to ensure that this service can be accommodated on the premises.³³

The Right of Way Bureau conveyed the comments it had received from the MHD departments to the Highway Commission and recommended that the Commission approve the plan for a long-term lease of the property, subject to certain conditions. The conditions did not include a provision for parking facilities in Wellesley or elsewhere to

³³Interoffice memorandum dated January 14, 1993 from Daniel F. Beagan, Director, Bureau of Transportation Planning and Development, to Nicholas Polechronis, Assistant Director, Right of Way Bureau.

meet any portion of the 20,000 parking space commitment cited above. The Commission approved the proposal as recommended by the Bureau on August 25, 1993.

Nonetheless, in a June 8, 1995 letter to this Office, MHD's Chief Counsel noted:

There has been no formal study of the use of Wellesley as a commuter parking facility, although MHD is considering incorporating a small car-pool/van-pool facility into the future development of the site.

DCPO's polling process

The Commissioner of DCPO is responsible under state law for determining whether any state agency or other public agency (including public authorities, districts, counties, and municipalities) has any current or foreseeable needs for state property that is underutilized or no longer needed by an agency.³⁴ On January 21, 1994, the Commissioner sent a notice about the availability of the property to the public agencies and authorities on its standard distribution list. That list includes:

- the Lieutenant Governor and the four independent constitutional officers (Attorney General, State Auditor, Treasurer, and Secretary of State);
- each of the 11 executive secretaries;
- the heads of 12 state agencies that use and control real property;³⁵

³⁴M.G.L. c.7, §40F states: "The commissioner may, after notification to and with the advice of executive heads of state agencies and secretaries of the executive offices, determine that real property is not needed for the use of any state agency. If he determines that such property is surplus to both the current and foreseeable needs of state agencies, the commissioner shall determine whether any other public agency has a current or foreseeable direct public use for the property. . . ."

³⁵The list of public entities directly notified by DCPO includes all agencies that use and control significant amounts of real property with the exception of individual higher education institutions. However, DCPO did notify the Secretary of Education, who

- the heads of four agencies with interests in property use (the Massachusetts Historical Commission, Public Access Board, Coastal Zone Management, and Conservation Services); and
- five independent public authorities: the Massachusetts Water Resources Authority (MWRA), Government Land Bank, Massachusetts Bay Transportation Authority, Massachusetts Turnpike Authority, and Massachusetts Port Authority.

The notice described the property and invited proposals for its use. DCPO received one expression of interest in the property. In a February 18, 1994 letter to DCPO, the MWRA indicated that it was interested in acquiring all of the site, or at least the back half, for a waterworks distribution maintenance facility. The MWRA indicated that it needed five to eight acres of land³⁶ and 40,000 to 60,000 square feet of building space to accommodate 110 to 160 people and 80 to 110 maintenance vehicles and equipment. In an April 1994 letter to the MHD, the MWRA expressed interest in only 7.5 acres at the rear of the site.

The Wellesley Depot was actually outside the area in which the MWRA intended to locate its waterworks distribution maintenance facility. In its first request for proposals (RFP) for a site, issued August 11, 1993, the MWRA specified that the site be located in one of five communities north of Boston: Everett, Malden, Medford, Somerville, or the west side of Chelsea. In two subsequent RFPs dated October 25, 1993 and March 23, 1994, the MWRA expressed a preference for sites in the five communities but indicated that it would entertain proposals for sites anywhere within Routes 1, Interstate 95 (Route 128) and Interstate 90 (the Massachusetts Turnpike). The Wellesley site is outside the far southwest corner of that search area.

oversees these institutions.

³⁶In a form attached to its correspondence, the MWRA indicated that it was requesting five to ten acres.

In a December 1994 telephone conversation, the MWRA informed DCPO that it was not giving further consideration to the Wellesley site. In May 1995, the MWRA informed this Office that it was in the process of negotiating for a site in Everett.

In a February 3, 1995 letter, the DCPO Commissioner also solicited information about potential local public agency needs from the Metropolitan Area Planning Council, the Norfolk County Commissioners, the Wellesley Board of Selectmen, and Senator Pines and Representative Locke. The responses to this solicitation identified two possible uses: a temporary Wellesley police headquarters and a county office and correctional facility.

In a February 24, 1995 letter to DCPO Commissioner Palermo, Wellesley Police Chief Thomas O'Laughlin proposed temporary use of approximately 5,000 square feet of space at the Wellesley Depot during the construction of a new police headquarters facility.³⁷ In his proposal, the Chief noted that the state would benefit from security provided by the presence of the Police, and stated that the facility would not be used as a lockup or for automotive repairs. On March 21, 1995, the Commissioner informed the Chief that DCPO would allow the proposed use for an 18-month term. The Wellesley Police are currently occupying a portion of the vacated building and expect to vacate the facility by the fall of 1996.

On March 7, 1995, Norfolk County Sheriff Clifford Marshall requested additional time to consider use of the Wellesley Depot for office and correctional facility space. He also requested a site visit to view the Wellesley facility. On March 9, 1995, DCPO granted the Sheriff an extension until April 7, 1995 and offered to schedule a site visit. According to

³⁷ According to documents obtained by this Office, the Chief first raised the possibility of this use in an April 7, 1994 letter to the Commissioner. In January 1995, the Chief corresponded with the MHD's Chief Counsel concerning this matter. MHD's Chief Counsel informed the Chief that the MHD would have no objection to the temporary use, provided that it did not delay the disposition of the property and that the Town pay reasonable costs to cover the operation of the police facility.

DCPO records, the Sheriff's office withdrew its interest in the site on April 10, 1995 because the Town of Wellesley was not receptive to use of the site as a correctional facility.

Other information sources

In an effort to identify other potential needs, this Office reviewed appropriations, capital outlays, and bond authorizations for the period of January 1988 to June 1995, and state advertisements for space rentals in the *Central Register* for the nine-month period ending June 1995. This review identified no additional need that could reasonably be satisfied by the Wellesley site.

VI. Conclusion

Based on the information and assumptions discussed in this report, this Office estimates that the Commonwealth can realize a net financial benefit through the MHD's transfers of functions and disposition of the Wellesley Depot. Overall, by this Office's calculations, the net benefit will be approximately \$6 million. (See Table VII.)

Table VII: Estimated Benefits and Costs of Long-Term Lease

Benefits:			
Present Value of 30-year rental payments			\$8,517,718
Deductions			
Groundwater monitoring	(460,000)		
Underground tank removal	(100,000)		
Transaction costs	(75,000)		
	Subtotal		(635,000)
Avoided costs			
Repairs & improvements	3,023,869		
Hazardous waste cleanup	100,000		
	Subtotal		3,123,869
Total			\$11,006,587
Cost of Transfers			(\$4,930,908)
Net Benefit			\$6,075,679

These figures are not intended to imply precision. This analysis is predicated on assumptions and estimates that have been noted throughout this report. This Office did not identify and value every cost and benefit associated with the transfer of functions and disposition of the Wellesley Depot. For example:

- The MHD and, to a lesser extent, the DCPO have expended staff time and agency overhead on this project and will continue to do so. Neither agency has tracked these costs which have not been included in this analysis (with the exception of MHD design cost estimates).
- In addition to transferring functions to other sites, the MHD has reorganized and is continuing to review its operations. Operational improvements have the potential for significant additional benefits:
- The process of reorganizing and transferring functions has undoubtedly impacted productivity. In the short term, it is likely that the changes had a negative impact: relocation leads to downtime in operations and the period of uncertainty leading to change may adversely affect morale. In the longer term, improved facilities and operations may improve productivity.
- Transferring functions affects operational costs in a variety of ways. For example: (1) the combined utility costs for the new facilities should be lower than the Wellesley Depot's utility costs; (2) the MHD may incur some incremental transportation costs because the relocated facilities are not as centrally located as the Wellesley Depot,³⁸ and (3) the relocation requires one MHD supervisor to oversee operations at four facilities (Medford, Franklin, Wrentham, and Bridgewater), thereby incurring the cost of travel among sites.
- The Town of Wellesley will receive annual property tax payments based on the value of any site development. The tax payments will exceed any current Commonwealth payment in lieu of taxes attributable to the Wellesley Depot.

Nonetheless, if the transfers proceed as described in this report, and if no significant unanticipated conditions (such as excessive hazardous materials remediation

³⁸Siting decisions for the various facilities evolved over the course of approximately two years. Facility locations appear to have been selected by the MHD principally on the basis of availability of buildings for relocated functions rather than a systematic evaluation of alternatives. In an August 1995 interim report (*Central Artery/Third Harbor Tunnel Project and Central Artery North Land Takings*), the House Post Audit and Oversight Committee noted the "lack of a definitive master plan for MHD facilities."

requirements) or events arise, this Office is confident that the Commonwealth will realize a substantial benefit from a lease of the Wellesley Depot.

Additional issues

During the course of this review, this Office identified the following two issues which merit additional discussion.

Location of the permanent research and materials facility. As noted earlier, the existing facility at D Street in South Boston is a temporary facility located adjacent to the CA/THT Project's TS&EO group. The MHD has been authorized to spend \$12 million to construct a combined maintenance and materials testing facility at the D Street site.³⁹ However, the D Street site may not be an advantageous long-term site for the function. The site was available when needed for the temporary relocation, and it offered the advantage of allowing collocation of the two materials testing functions during construction of the CA/THT project. However, the CA/THT project is scheduled to be completed in eight years, so there is no long-term need for collocation of these functions. In addition, the site is within an area that has been proposed as a possible site for a convention center and sports facilities. If plans advance for these uses and include the D Street site, MHD will be required to find a new site for the research and materials testing facility.

Recommendation: Prior to undertaking design and construction of a permanent research and materials testing facility at D Street in South Boston, MHD should undertake a siting alternatives analysis as part of the building study required for building projects under M.G.L. c.7, §40A.

Absence of statewide facility planning. The DCPO, the state's central real property agency, has no statewide master facility plan identifying agencies' long-term facility needs, assessing alternatives including owning or leasing private space, and

³⁹Chapter 273 of the Acts of 1994, §2, line item 6033-9540.

recommending cost-effective solutions for meeting agency needs. The state has recently entered into 10-year leases of large amounts of space for the Department of Education in Malden and the State Lottery Commission in Braintree, both of which might reasonably have been placed at the site of the Wellesley Depot had it been available and properly developed. Other state sites may be equally well suited to construction or renovation to meet the needs of state agencies. In the absence of comprehensive long-term planning, however, the DCPO cannot effectively assess the benefits and costs of developing and operating additional state-owned space compared to leasing privately owned space.

Recommendation: The Division of Capital Planning and Operations should prepare and periodically update a statewide master facility plan identifying major space needs, assessing alternatives, and recommending cost effective solutions for meeting needs. The plan should examine the costs and benefits of leasing and owning space, as well as the appropriate mix of leased and owned space.

Appendix

The MHD's Response to the Draft Report

This Office provided a draft of this report to the MHD for review and comment. The MHD responded by letter dated June 27, 1996, a copy of which is appended. The MHD commented that the draft report's estimate of annual rent, based on the Leggat McCall 1995 appraisal report, is significantly lower than the actual bids received from developers. Those bids, according to the MHD, range up to \$1.02 million per year with significant adjustments. This Office accepts the likelihood that the final annual rent will exceed the 1995 appraisal. That appraisal is now a little more than one year old, and the real estate market has continued to improve in the area. Moreover, as noted in the report, the actual market value would be established through open, fair, and rigorous competition among developers, and the DCPO received 17 development proposals for the Wellesley Depot on May 15, 1996. Nonetheless, this Office has not reviewed the bids and is not involved in negotiations with prospective developers. Consequently, we have chosen to use the 1995 appraisal report's estimated value as a conservative basis for concluding that the Commonwealth will realize a net financial benefit through MHD's transfer of functions and disposition of the Wellesley Depot.

The MHD also commented that, whereas the draft report attributed demolition costs to the Commonwealth, all developers have agreed to bear the cost of demolition, and that the rent payment bids are net of the demolition costs. In response, this Office re-examined the request for proposals issued on February 29, 1996, and determined that, under the terms of the RFP, developers would be responsible for demolition. As a result, this Office removed the estimated demolition cost from the Commonwealth's costs and adjusted the estimate of the fair market value of the property reported in the Leggat McCall 1995 appraisal report to reflect the additional cost to the developer.

June 27, 1996

Mr. Robert A. Cerasoli
Inspector General
One Ashburton Place - 13th Floor
Boston, MA 02108

Attn. Daniel Ahern

Dear Mr. Cerasoli:

Thank you for the opportunity to review and comment on the draft report on the transfer of functions from the Wellesley Central Maintenance Facility. It is clear that your staff did a great deal of work in its preparation.

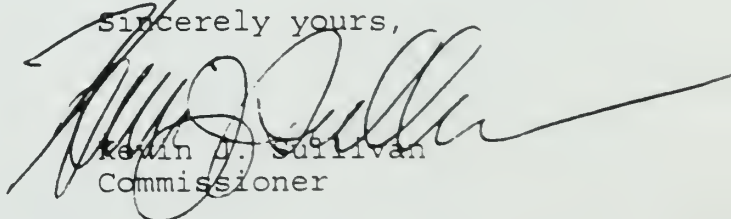
MassHighway has always understood that the cost to move out of Wellesley would be substantial but believed that the relocation would result in a significant economic return to the taxpayers of the Commonwealth. Your conclusions clearly support that belief.

The Department has two comments to particular assumptions made by your staff. The first deals with the rental value assigned to the lease on page 12 of the draft report. We agree that the Leggatt McCall estimate of \$820,000 per year was appropriate based on information available at the time, however, actual bids received from interested developers are higher. They range up to \$1.02 million per year in base rent with significant adjustments based on increases in the Consumer Price Index and/or participation in net cash flow. This should have some bearing on the net present value analysis contained in the report.

Second, you have included, at page 15, an \$892,000 estimate for demolition of the building and attribute that cost to the Commonwealth. In fact, all developers have agreed that the cost of demolition is a cost of development and rent payments are net of such costs. The report should be modified to reflect that.

Should you have any questions you can call Edward J. Corcoran II, Chief Counsel, at 973-7033.

Sincerely yours,


Kevin J. Sullivan
Commissioner

